

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Chandler Unified School District No. 80

Year ended June 30, 2006



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Laura Miller, Manager and Contact Person
lmiller@azauditor.gov

Paula Gustafson

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 27, 2007

Governing Board
Chandler Unified School District No. 80
1525 West Frye Road
Chandler, AZ 85224-6178

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Cronstrom, Osuch & Company, P.C. to determine whether the District substantially complied with the USFR.

As a result of this review and our performance audit of the District dated August 22, 2007, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Chief Financial Officer in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District must improve controls over purchasing and expenditures	2
Recommendation 2: The District must use its Classroom Site Fund monies properly	3
Recommendation 3: The District should ensure the accuracy of its student attendance records	4
Recommendation 4: The District should strengthen controls over student activities and auxiliary operations monies	5

INTRODUCTION

Chandler Unified School District No. 80 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$260 million it received in fiscal year (FY) 2006 to provide this education.

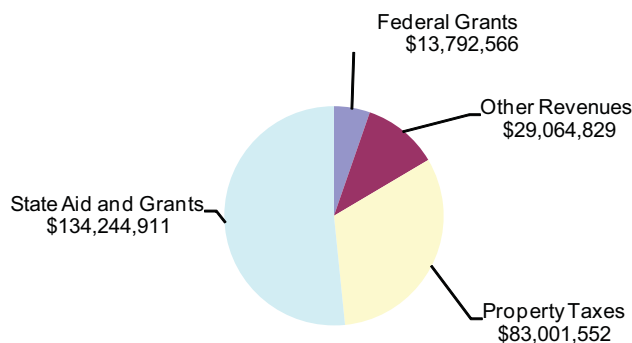
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, and our performance audit dated August 22, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Maricopa
Number of Schools: 32

Number of Students: 30,401
Grade Levels: PSD-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Chandler Unified School District No. 80 Annual Financial Report Fiscal Year Ended June 30, 2006.*

The District must improve controls over purchasing and expenditures

The District spends public monies to purchase goods and services. It is essential that the District follow procedures designed to help ensure that its expenditures are appropriate, adequately supported, and within available district resources. However, the District did not have adequate controls over its expenditure processing. Specifically, the District did not adequately control the nearly 500 procurement cards (p-cards) used for 9,500 transactions in FY 2006, for purchases totaling \$2.3 million. Additionally, the District did not adequately review p-card purchases for compliance

The District did not have adequate internal controls over nearly 500 p-cards and 300 fuel cards used for purchases totaling over \$3 million, potentially subjecting district monies to fraud, theft, and misuse.

with its policies and appropriateness of purchases. As a result, purchases were made from a vendor with which the District had prohibited card use, purchases exceeded district-authorized monthly spending limits, the

purchaser was not always listed as an authorized card user, and there were purchases of gift cards that were expressly prohibited by district policy. Also, the District did not always receive the lower negotiated pricing from vendors with which the District had existing contracts when p-cards were used to make the purchases. Further, the District did not adequately monitor nearly 300 fuel cards for purchases totaling approximately \$900,000 to ensure purchases were appropriate and properly documented, and did not have procedures in place to cancel fuel cards when district vehicles were removed from service.

Additionally, the District did not require all cell phone users to sign cell phone agreement forms, and the District did not collect \$16,031 for cell phone charges due from employees in FY 2006 that were owed in accordance with the cell phone

The District did not collect more than \$16,000 due from employees for cell phone charges in FY 2006.

agreements. In addition, the District did not always prepare purchase orders before goods or services were ordered and did not always stamp vendor invoices as paid. Finally, the District did

not classify all expenditures in accordance with the Uniform Chart of Accounts as \$7.9 million in classification errors were noted; more than \$4.9 million of this amount was misclassified as instruction. These errors resulted in the District overstating its classroom dollars percentage by 2.6 percentage points.

Recommendations

To strengthen controls over purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Reduce the number of p-cards in use and more effectively implement its controls and reviews to protect against misuse of p-cards.

- Ensure that specific policies detailing purchasing procedures, reconciliation practices, and disciplinary actions are followed and that these policies are distributed to those employees authorized to use p-cards.
- Ensure that applicable pricing and discounts are obtained for all purchases.
- Cancel fuel cards for vehicles no longer in service immediately and closely monitor fuel invoices for any improper or unusual fuel purchases.
- Ensure that each user signs cell phone agreements and that monies owed to the District are collected in a timely manner. Further, the District should review its cell phone policy to determine whether employees are reimbursing an appropriate amount for their personal use.
- Prepare and approve purchase orders before ordering goods and services and ensure that adequate cash or budget capacity exists prior to committing district or student resources.
- Cancel invoices and supporting documents by stamping them “paid” and recording voucher and warrant numbers on the invoice to help prevent duplicate payments.
- Classify all financial transactions in accordance with the USFR Chart of Accounts (§III).

The District must use its Classroom Site Fund monies properly

The Classroom Site Fund (CSF), administered by ADE, was established in fiscal year 2002 to account for the portion of state sales tax collections provided to school districts as additional funding for teacher salary increases and other specified maintenance and operation purposes. Districts must correctly allocate, separately account for, and spend CSF distributions in accordance with Arizona Revised Statutes (A.R.S.). However, the District did not always use CSF monies properly. Specifically, the District did not use monies in accordance with the performance pay plan adopted by the Governing Board as approximately \$800,000 was used for base salary increases. Also, employees received performance pay for activities that were already required by the terms of their contract. In addition, the District did not always retain documentation to support that the pay-for-performance requirements were satisfied. Further, the District used approximately \$53,800 for salaries and benefits for employees who were not eligible to receive CSF

The District did not use CSF monies appropriately, including paying over \$53,000 in salaries and benefits for ineligible employees.

monies and for conference-related expenses for an administrator. Finally, the District did not retain the site allocation plans for using menu option monies at six schools.

Recommendations

The District must ensure that monies received from the CSF are used in accordance with A.R.S. §15-977. To help ensure that CSF monies are spent in compliance with statute, the District must use CSF—012 monies only for performance-based teacher compensation increases, teacher-employment-related expenses, and registered-warrant expenses for this fund. Districts must also ensure that payments from this fund are based on its adopted performance pay plan and supported by documentation of plan objectives achieved. In addition, the District should ensure menu monies are used only for the following maintenance and operation purposes; class size reduction, AIMS intervention, dropout prevention, teacher compensation increases, teacher development, teacher liability insurance premiums, and registered warrant expenses for the fund. Expenditures for class size reduction, AIMS intervention, and dropout prevention programs must be appropriate expenditures under function 1000—Instruction, excluding athletics, in accordance with A.R.S. §15-977(N). Finally, CSF monies must not be used for administrative purposes, and adequate documentation should be retained to demonstrate that CSF monies were spent in accordance with statute and the District's plan.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate student attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective.

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

Specifically, the student entry dates were not always indicated on the student entry forms. In addition, the student entry and withdrawal dates indicated in the District's computerized attendance system did not always agree with the corresponding entry and withdrawal forms.

Also, the District did not always calculate student absences correctly at the elementary, junior high, and high schools tested. Finally, the District did not always exclude Joint Technological Education District (JTED) classes from absence calculations.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Require all entry and withdrawal forms to be dated and have a second employee verify that entry and withdrawal dates on the forms agree with the dates in the District's computerized attendance system and teachers' attendance records.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If the instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent.
- Record attendance for students in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Record attendance for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*.
- Ensure that the District calculates student absences based on the number of district classes the student was enrolled in and attended, excluding JTED program classes.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District should strengthen controls over student activities and auxiliary operations monies

The District holds student activities monies raised through students' efforts for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight of these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not always prepare cash collection reports for student activities cash receipts, and cash

Poor controls left district and student monies susceptible to loss, theft, or misuse.

USFR §§X-G and X-H provide general policies and procedures for auxiliary operations and student activities.

collection reports did not always indicate the source of the funds for the deposit and were not always signed by two employees. Also, the District did not always prepare cash collection reports prior to the deposit date for auxiliary operations cash receipts and did not always deposit auxiliary operations monies in a timely manner.

Recommendations

To improve controls over student activities and auxiliary operations cash receipts, the District should require that prior to making deposits, cash collection or activity reports are prepared to document and reconcile monies received to receipts, tickets issued or items sold. If it is not practical to sell tickets or count items before and after the sale for student activities events, such as bake sales, student clubs should still prepare cash collection reports to document cash collected. Also, the District should deposit cash receipts intact at least weekly, or daily if significant, and retain supporting documentation.